

TOWNSHIP OF SAGE
Gladwin County, Michigan

FINANCIAL REPORT WITH
SUPPLEMENTARY INFORMATION

Year Ended March 31, 2006

AUDITING PROCEDURES REPORT

Issue under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Township of Sage	County Gladwin
Audit Date March 31, 2006	Opinion Date June 6, 2006	Date Accountant Report Submitted to State: July 7, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during they year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Campbell, Kusterer & Co., P.C.			
Street Address 512 N. Lincoln, Suite 100, P.O. Box 686		City Bay City	State MI
Accountant Signature Campbell, Kusterer & Co., P.C.		Zip 48707	

TOWNSHIP OF SAGE
Gladwin County, Michigan

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CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

June 6, 2006

To the Township Board
Township of Sage
Gladwin County, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Township of Sage, Gladwin County, Michigan as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Township of Sage's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Township of Sage, Gladwin County, Michigan as of March 31, 2006, and the respective changes in financial position thereof, for the year ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Township's basic financial statements. The other supporting information described in the accompanying table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Campbell, Kusterer & Co., P.C.
CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants

TOWNSHIP OF SAGE
Gladwin County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended March 31, 2006

The Management's Discussion and Analysis report of the Township of Sage covers the Township's financial performance during the year ended March 31, 2006.

FINANCIAL HIGHLIGHTS

Our financial status remained stable over the last year. Net assets at March 31, 2006, totaled \$798,094.13 for governmental activities. Overall total capital assets remained approximately the same.

Overall revenues were \$471,016.02 from governmental activities. Governmental activities had a \$127,898.91 increase in net assets with no major road improvements.

We did not incur any new debt.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts, management's discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Township and the notes to the financial statements.

The first two statements are entity-wide financial statements and provide both long and short-term information about our overall financial status. These statements present governmental activities.

The remaining statements are fund financial statements, which focus on individual parts of the Township in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

ENTITY-WIDE FINANCIAL STATEMENTS

The entity-wide statements report information about the Township as a whole. The statement of net assets includes all the Township's assets and liabilities. The statement of activities records all of the current year revenues and expenses regardless of when received or paid.

The two entity-wide statements report net assets and how they have changed. Net assets are the difference between the entity's assets and liabilities and this is one method to measure the entity's financial health or position.

Over time increases/decreases in the entity's net assets are an indicator of whether financial position is improving or deteriorating.

To assess overall health of the entity you may also have to consider additional factors such as tax base changes, facility conditions and personnel changes.

All of the activities of the Township are reported as governmental activities. This includes the General Fund.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Township's funds, focusing on significant (major) funds not the Township as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. The Township Board also may create them. Funds are established to account for funding and spending of specific financial resources and to show proper expenditures of those resources.

TOWNSHIP OF SAGE
Gladwin County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended March 31, 2006

FUND FINANCIAL STATEMENTS (continued)

The Township has the following types of funds:

Governmental funds: All of the Township's activities are included in the governmental category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information. You will note that the differences between the Township's entity-wide statements and the fund statements are disclosed in reconciling statements to explain the differences between them. The Township's governmental activities include the General Fund.

FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE

We continue to pay our loan through Chemical Bank. Our original loan was taken out on August 31, 2000, in the amount of \$420,000.00. It is now down to \$211,635.03

Our cash position for the governmental activities remain strong.

Our external debt has approximately 5 years left and a \$211,635.03 balance for the Township Hall.

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS

The Township had General Fund revenues in excess of expenditures for the year in the amount of \$57,201.45.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

The Township's governmental activities invested \$0 in capital assets.

The Township's governmental activities paid \$78,922.46 of principal on the note payable.

KNOWN FACTORS AFFECTING FUTURE OPERATIONS

The future of state revenue sharing is very clouded and it represents a significant portion of our income. We continue to grow in taxable values.

CONTACTING THE TOWNSHIP'S MANAGEMENT

This financial report is intended to provide our taxpayers, creditors, investors and customers with a general overview of the Township's finances and to demonstrate the Township's accountability for the revenues it receives. If you have any questions concerning this report, please contact the Township Clerk or Township Treasurer at 1831 Pratt Lake Road, Gladwin, Michigan 48624.

TOWNSHIP OF SAGE
Gladwin County, Michigan

GOVERNMENT-WIDE STATEMENT OF NET ASSETS

March 31, 2006

	<u>Governmental Activities</u>
ASSETS:	
CURRENT ASSETS:	
Cash in bank	375 598 07
Taxes receivable	<u>24 626 09</u>
Total Current Assets	<u>400 224 16</u>
NONCURRENT ASSETS:	
Capital Assets	658 855 00
Less: Accumulated Depreciation	<u>(49 350 00)</u>
Net Capital assets	<u>609 505 00</u>
TOTAL ASSETS	<u><u>1 009 729 16</u></u>
LIABILITIES AND NET ASSETS:	
LIABILITIES:	
CURRENT LIABILITIES	<u>-</u>
Total Current Liabilities	<u>-</u>
NONCURRENT LIABILITIES:	
Note payable	<u>211 635 03</u>
Total Noncurrent Liabilities	<u>211 635 03</u>
Total Liabilities	<u>211 635 03</u>
NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	397 869 97
Unrestricted	<u>400 224 16</u>
Total Net Assets	<u>798 094 13</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>1 009 729 16</u></u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF SAGE
Gladwin County, Michigan

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
Year ended March 31, 2006

	<u>Expenses</u>	<u>Program Revenue</u>	<u>Governmental Activities Net (Expense) Revenue and Changes in Net Assets</u>
FUNCTIONS/PROGRAMS			
Governmental Activities:			
Legislative	24 126 88	-	(24 126 88)
General government	81 263 04	18 962 23	(62 300 81)
Public safety	70 194 81	2 700 00	(67 494 81)
Public works	153 242 84	135 300 08	(17 942 76)
Interest on long-term debt	14 289 54	-	(14 289 54)
Total Governmental Activities	<u>343 117 11</u>	<u>156 962 31</u>	<u>(186 154 80)</u>
General Revenues:			
Property taxes			117 848 61
State revenue sharing			181 765 88
Interest			3 171 26
Miscellaneous			11 267 96
Total General Revenues			<u>314 053 71</u>
Change in net assets			127 898 91
Net assets, beginning of year			<u>670 195 22</u>
Net Assets, End of Year			<u>798 094 13</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF SAGE
Gladwin County, Michigan

BALANCE SHEET – GOVERNMENTAL FUND
March 31, 2006

	<u>General</u>
<u>Assets</u>	
Cash in bank	375 498 07
Taxes receivable	24 626 09
Due from other funds	<u>100 00</u>
Total Assets	<u>400 224 16</u>
<u>Liabilities and Fund Equity</u>	
Liabilities	
Total liabilities	<u>-</u>
Fund equity:	
Fund balances:	
Unreserved:	
Undesignated	<u>400 224 16</u>
Total fund equity	<u>400 224 16</u>
Total Liabilities and Fund Equity	<u>400 224 16</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF SAGE
Gladwin County, Michigan

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUND
TO THE STATEMENT OF NET ASSETS
March 31, 2006

TOTAL FUND BALANCE – GOVERNMENTAL FUND	400 224 16
Amounts reported for governmental activities in the statement of net assets are different because –	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental fund balance sheet:	
Capital assets at cost	658 855 00
Accumulated depreciation	(49 350 00)
Long-term debt liabilities are not due and payable in the current period and therefore are not reported in the governmental fund:	
Note payable	<u>(211 635 03)</u>
TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES	<u>798 094 13</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF SAGE
Gladwin County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE –
GOVERNMENTAL FUND
Year ended March 31, 2006

	<u>General</u>
Revenues:	
Property taxes	117 848 61
Licenses and permits	12 352 23
State revenue sharing	181 765 88
Interest	3 171 26
Rent	9 310 00
Special assessments	135 300 08
Miscellaneous	<u>11 267 96</u>
Total revenues	<u>471 016 02</u>
Expenditures:	
Legislative:	
Township Board	24 126 88
General government:	
Supervisor	6 348 84
Elections	814 75
Assessor	26 258 82
Clerk	10 048 25
Board of Review	1 302 00
Treasurer	10 649 04
Building and grounds	17 616 34
Public safety:	
Fire protection	65 682 96
Planning and zoning	4 511 85
Public works:	
Highways and streets	22 988 75
Sanitation	130 254 09
Debt service	<u>93 212 00</u>
Total expenditures	<u>413 814 57</u>
Excess of revenues over expenditures	57 201 45
Fund balance, April 1	<u>343 022 71</u>
Fund Balance, March 31	<u><u>400 224 16</u></u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF SAGE
Gladwin County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE OF GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES
Year ended March 31, 2006

NET CHANGE IN FUND BALANCE – TOTAL GOVERNMENTAL FUND 57 201 45

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement of Activities,
these costs are allocated over their estimated useful lives as depreciation

Depreciation Expense	(8 225 00)
Capital Outlay	-

Repayment of debt principal is an expenditure in the governmental funds, the
repayment does not have an effect in the statement of activities but does
reduce the debt balance in the statement of net assets.

Principal payments on long-term debt	<u>78 922 46</u>
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CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>127 898 91</u></u>
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The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF SAGE
Gladwin County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2006

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Township of Sage, Gladwin County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

The financial statements of the Township contain all the Township funds that are controlled by or dependent on the Township's executive or legislative branches.

The reporting entity is the Township of Sage. The Township is governed by an elected Township Board. As required by generally accepted accounting principles, these financial statements present the Township as the primary government.

Joint Venture

The Township and the Townships of Buckeye, Hay, Gladwin, Grout and Sherman and the City of Gladwin jointly formed the Gladwin Rural Urban Fire Protection District to provide fire protection service for the seven local governmental units. For the fiscal year ended March 31, 2006, the Township of Sage paid \$64,532.96 to the Fire District. The Fire District is not considered a part of the reporting entity of the Township of Sage. Separate financial statements of the Fire District may be obtained directly from their office at 710 East Cedar Avenue, Gladwin, Michigan.

Government-Wide and Fund Financial Statements

The government-wide financial statements, (the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the Township's government-wide activities are considered governmental activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments and other items not properly included among program revenues are reported as general revenue.

Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

TOWNSHIP OF SAGE
Gladwin County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2006

Note 1 – Summary of Significant Accounting Policies (continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Governmental Funds

General Fund

This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, and other intergovernmental revenues.

Fiduciary Fund

The Current Tax Collection Fund is used to account for assets held as an agent for others.

Assets, Liabilities and Net Assets or Equity

Bank deposits and investments – cash and cash equivalent investments include cash on hand, demand deposits, certificates of deposit and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables

Receivables have been recognized for all significant amounts due to the Township. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

Inventories

Inventories of supplies are considered to be immaterial and are not recorded.

Property Taxes

Property taxes are accrued in the year in which they are levied. The tax levy is recorded as deferred revenue until the subsequent year when it becomes available for use.

Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the county tax rolls. The 2005 tax roll millage rate was .7987 mills, and the taxable value was \$66,787,580.00.

TOWNSHIP OF SAGE
Gladwin County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2006

Note 1 – Summary of Significant Accounting Policies (continued)

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

Capital Assets

Capital assets are defined by the Township as assets with an initial cost of more than \$5,000.00 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings, additions and improvements	40-60 years
Furniture and equipment	20 years

Compensated Absences (Vacation and Sick Leave)

Employees are not allowed to accumulate vacation and sick pay and therefore no accumulated amount is recorded in the financial statements.

Post-employment Benefits

The Township provides no post-employment benefits to past employees.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Note 2 – Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Township Board for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.
3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the Township Board.
5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the Township Board.

TOWNSHIP OF SAGE
Gladwin County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

Note 2 – Budgets and Budgetary Accounting (continued)

7. The adopted budgets are used as a management control device during the year for all budgetary funds.
8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these financial statements are the originally adopted budgets with all amendments that were approved by the Township Board during the fiscal year.

Note 3 – Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Township Board has designated one bank for the deposit of Township funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

The Township's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

	<u>Carrying Amounts</u>
Total Deposits	<u>375 598 07</u>

Amounts in the bank balances are without considering deposits in transit or uncleared checks.

	<u>Bank Balances</u>
Insured (FDIC)	186 445 07
Uninsured and Uncollateralized	<u>194 620 46</u>
Total Deposits	<u>381 065 53</u>

The Township of Sage did not have any investments as of March 31, 2006.

TOWNSHIP OF SAGE
Gladwin County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2006

Note 4 – Capital Assets

Capital asset activity of the Township's Governmental activities for the current year was as follows:

	<u>Balance 4/1/05</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 3/31/06</u>
<u>Governmental Activities:</u>				
Land	191 855 00	-	-	191 855 00
Buildings	455 000 00	-	-	455 000 00
Equipment	<u>12 000 00</u>	<u>-</u>	<u>-</u>	<u>12 000 00</u>
Total	658 855 00	-	-	658 855 00
Accumulated Depreciation	<u>(41 125 00)</u>	<u>(8 225 00)</u>	<u>-</u>	<u>(49 350 00)</u>
Net Capital Assets	<u>617 730 00</u>	<u>(8 225 00)</u>	<u>-</u>	<u>609 505 00</u>

Note 5 – Pension Plan

The Township has a defined contribution pension plan covering all elected officers and full-time employees. The Township contributes 6.2% of each covered employee's wages to the plan. Each covered employee also contributes 6.2% of their wages to the plan. The net pension expense for the fiscal year ended March 31, 2006, was \$2,220.09.

Note 6 – Deferred Compensation Plan

The Township does not have a deferred compensation plan.

Note 7 – Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Township has purchased commercial insurance for property loss, torts and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 8 – Building Permits

The Township of Sage does not issue building permits. Building permits are issued by the County of Gladwin.

Note 9 – Interfund Receivables and Payables

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	<u>100 00</u>	Current Tax Collection	<u>100 00</u>
Total	<u>100 00</u>	Total	<u>100 00</u>

TOWNSHIP OF SAGE
Gladwin County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2006

Note 10 – Changes in Long-Term Debt

A summary of changes in long-term debt follows:

	Balance 4/1/05	Additions	Deductions	Balance 3/31/06
Note payable – township hall	290 557 49	-	78 922 46	211 635 03
Total	290 557 49	-	78 922 46	211 635 03

Note 11 – Note Payable – Township Hall

On August 31, 2000, the Township entered into an installment purchase agreement, whereby the Township obtained a \$420,000.00 loan from Chemical Bank to partially fund the construction of a new Township Hall. The loan requires monthly payments in the amount of \$3,601.00, including principal and interest at the rate of 6.25% per annum, subject to future adjustment. As of March 31, 2006, the principal balance outstanding was \$211,635.03.

TOWNSHIP OF SAGE
Gladwin County, Michigan

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
Year ended March 31, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Revenues:				
Property taxes	114 500 00	114 500 00	117 848 61	3 348 61
Licenses and permits	12 000 00	12 000 00	12 352 23	352 23
State revenue sharing	175 000 00	175 000 00	181 765 88	6 765 88
Interest	2 415 79	2 415 79	3 171 26	755 47
Rent	11 000 00	11 000 00	9 310 00	(1 690 00)
Special assessments	129 000 08	129 000 08	135 300 08	6 300 00
Miscellaneous	860 00	860 00	11 267 96	10 407 96
Total revenues	<u>444 775 87</u>	<u>444 775 87</u>	<u>471 016 02</u>	<u>26 240 15</u>
Expenditures:				
Legislative:				
Township Board	39 700 16	40 100 16	24 126 88	(15 973 28)
General government:				
Supervisor	6 500 04	6 500 04	6 348 84	(151 20)
Elections	2 250 00	2 250 00	814 75	(1 435 25)
Assessor	32 600 00	32 600 00	26 258 82	(6 341 18)
Clerk	10 600 04	10 600 04	10 048 25	(551 79)
Board of Review	1 210 00	1 460 00	1 302 00	(158 00)
Treasurer	11 500 00	11 500 04	10 649 04	(851 00)
Building and grounds	33 080 00	33 080 00	17 616 34	(15 463 66)
Public safety:				
Fire protection	61 756 70	65 756 70	65 682 96	(73 74)
Planning and zoning	6 850 04	6 850 04	4 511 85	(2 338 19)
Public works:				
Highways and streets	44 200 00	44 200 00	22 988 75	(21 211 25)
Sanitation	134 500 00	134 500 00	130 254 09	(4 245 91)
Other:				
Contingency	285 132 69	280 482 65	-	(280 482 65)
Debt service	93 300 00	93 300 00	93 212 00	(88 00)
Total expenditures	<u>763 179 67</u>	<u>763 179 67</u>	<u>413 814 57</u>	<u>(349 365 10)</u>
Excess (deficiency) of revenues over expenditures	(318 403 80)	(318 403 80)	57 201 45	375 605 25
Fund balance, April 1	<u>318 403 80</u>	<u>318 403 80</u>	<u>343 022 71</u>	<u>24 618 91</u>
Fund Balance, March 31	<u>-</u>	<u>-</u>	<u>400 224 16</u>	<u>400 224 16</u>

TOWNSHIP OF SAGE
Gladwin County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT
Year ended March 31, 2006

Township Board:	
Wages	1 680 00
Audit and accounting	2 600 00
Memberships and dues	1 388 14
Printing and publishing	1 438 22
Insurance	933 00
Equalization	3 543 42
Payroll taxes	1 110 18
Pension	2 220 09
Summer tax	5 000 00
Miscellaneous	4 213 83
	<u>24 126 88</u>
Supervisor:	
Salary	6 200 04
Supplies	148 80
	<u>6 348 84</u>
Elections:	
Wages	814 75
	<u>814 75</u>
Assessor:	
Contracted services	25 908 84
Expenses	349 98
	<u>26 258 82</u>
Clerk:	
Salary	9 500 04
Office expense	548 21
	<u>10 048 25</u>
Board of Review:	
Wages	1 200 00
Miscellaneous	102 00
	<u>1 302 00</u>
Treasurer:	
Salary	9 500 04
Office expense	1 149 00
	<u>10 649 04</u>
Building and grounds:	
Supplies	1 192 63
Insurance	4 407 00
Utilities	5 899 65
Custodian	3 670 00
Repairs and maintenance	2 447 06
	<u>17 616 34</u>
Fire protection:	
Wages	1 150 00
Contracted services	64 532 96
	<u>65 682 96</u>
Planning and zoning:	
Wages	1 770 00
Permit fees	690 00
Printing and publishing	351 81
Administrator fees	1 700 04
	<u>4 511 85</u>

TOWNSHIP OF SAGE
Gladwin County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT
Year ended March 31, 2006

Highways and streets	<u>22 988 75</u>
Sanitation:	
Contracted services	129 628 18
Compost site	<u>625 91</u>
	<u>130 254 09</u>
Debt service	<u>93 212 00</u>
Total Expenditures	<u><u>413 814 57</u></u>

TOWNSHIP OF SAGE
Gladwin County, Michigan

CURRENT TAX COLLECTION FUND STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
Year ended March 31, 2006

	<u>Balance</u> <u>4/1/05</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>3/31/06</u>
<u>Assets</u>				
Cash in Bank	<u>2 658 98</u>	<u>1 988 616 90</u>	<u>1 989 481 99</u>	<u>1 793 89</u>
<u>Liabilities</u>				
Due to other funds	190 45	235 584 16	235 674 61	100 00
Due to others	<u>2 468 53</u>	<u>1 753 032 74</u>	<u>1 753 807 38</u>	<u>1 693 89</u>
Total Liabilities	<u>2 658 98</u>	<u>1 988 616 90</u>	<u>1 989 481 99</u>	<u>1 793 89</u>

TOWNSHIP OF SAGE
Gladwin County, Michigan

CURRENT TAX COLLECTION FUND
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
Year ended March 31, 2006

Cash on hand and in bank – beginning of year	<u>2 658 98</u>
Cash receipts:	
Property tax	1 986 702 90
Animal licenses	<u>1 914 00</u>
Total cash receipts	<u>1 988 616 90</u>
Total beginning balance and cash receipts	<u>1 991 275 88</u>
Cash disbursements:	
Township General Fund	235 674 61
Clare-Gladwin ISD	126 663 40
Gladwin Community Schools	529 256 52
Gladwin County	1 016 797 41
Mid-Michigan Community College	75 987 29
Refunds	<u>5 102 76</u>
Total cash disbursements	<u>1 989 481 99</u>
Cash on Hand and in Bank – End of Year	<u>1 793 89</u>

CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS

June 6, 2006

To the Township Board
Township of Sage
Gladwin County, Michigan

We have audited the financial statements of the Township of Sage for the year ended March 31, 2006. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES

We conducted our audit of the financial statements of the Township of Sage in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

To the Township Board
Township of Sage
Gladwin County, Michigan

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies are described in Note 1 to the financial statements.

OTHER COMMUNICATIONS

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY

Our procedures disclosed the following conditions that we would like to bring to your attention:

SEGREGATION OF DUTIES

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication of effort.

We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the "cost to benefit" relationship may not justify the addition of accounting staff to accomplish the desired segregation.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Township's financial statements and this communication of these matters does not affect our report on the Township's financial statements, dated March 31, 2006.

SUMMARY

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

Campbell, Kusterer & Co., P.C.
CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants